Annual Return (AR30) form

Society Name:	Funeral Services Limited
Society Num:	30808 R

An Annual Return must be completed by all societies registered under the Co-operative and Community Benefit Societies Act 2014 ('the Act') (including any societies previously registered under the Industrial and Provident Societies Act 1965). The Annual Return must include:

- this form;
- a set of the society's accounts; and
- where required, an audit report or report on the accounts.

A society must submit the Annual Return within 7 months of the end of the society's financial year. Failure to submit on time is a prosecutable offence.

Please note that this form, including any details provided on the form, will be made available to the public through the Mutuals Public Register.

For guidance on our registration function for societies, which includes guidance on the requirement to submit an Annual Return, please see here

2.1 What date did the financial year covered by these accounts end?

01/01/2022

3.1 Please provide the names of the people who were directors of the society during the financial year this return covers.

Some societies use the term 'committee member' or 'trustee' instead of 'director'. For ease of reference, we use 'director' throughout this form.

Name of Director	**Month of Birth**	**Year of Birth**
Samantha Jane Tyrer	Feb	1970
Gillian Louise Stewart	Sep	1966
Helen Louise Smith	Feb	1975

3.2 All directors must be 16 or older. Please confirm this is this case:

☒ All directors are aged 16 or over

3.3 Societies are within the scope of the Company Director Disqualification Act 1986 (CDDA). Please confirm that no director is disqualified under that Act:

☒ No director is disqualified

3.4 Please state any close links which any of the directors has with any society, company or authority.

'Close links' includes any directorships or senior positions held by directors of the society in other organisations.

Please see Appendix A

3.5 Please provide the name of the person who was secretary at the end of the financial year this return covers.

Societies must have a secretary

Name of Secretary	Month of Birth	Year of Birth
Caroline Jane Sellers	Jan	1972

4.1 Please confirm that:

☒ accounts are being submitted with this form

☒ the accounts comply with relevant statutory and accounting requirements

☒ the accounts are signed by two members and the secretary (3 signatures in total)

4.2 Based on the accounts, please provide the information requested below for the financial year covered by this return.

Number of members	2

Turnover	266,192,000
Assets	2,222,576,000
Number of Employees	0
Share Capital	3
Highest rate of interest paid on shares	0

4.3 What Standard Industrial Classification code best describes the society's main business?

Where more than one code applies, please select the code that you feel best describes the society's main business activity. You will find a full list of codes here

SIC Code **Funeral and related activities (96030)** *

Societies are required to appoint an auditor to audited unless they are small or have disapplied this requirement. For further guidance see chapter 7 of our guidance:
https://www.fca.org.uk/publication/finalised-guidance/fg15-12.pdf

5.1 Please select the audit option the society has complied with:

◉ Full Professional Audit
○ Auditor's report on the accounts
○ Lay Audit
○ No audit

5.2 Please confirm the audit option used by the society is compliant with the society's own rules and the Act

☒ We have complied with the audit requirements

5.3 Please confirm any audit report (where required) is being submitted with this Annual Return

◉ Yes
○ Not applicable

5.4 Is this society accepted by HM Revenue and Customs (HMRC) as a charity for tax purposes?

- ○ Yes
- ◉ No

5.5 If the society is registered with the Office of the Scottish Charity Regulator (OSCR) please provide your OSCR registration number.

- ○ Registered
- ◉ Not applicable

5.6 Is the society a housing association?

- ◉ No
- ○ Yes

6.1 Is the society a subsidiary of another society?

- ◉ Yes
- ○ No

6.2 Does the society have one or more subsidiaries?

(As defined in sections 100 and 101 of the Act)

- ○ Yes
- ◉ No

All societies are registered meeting one of two conditions for registration. These are that the society is either:

• a bona fide co-operative society ('co-operative society'); or
• are conducting business for the benefit of the community ('community benefit society').

You must answer the questions set out in in the next section of this form, depending on which condition for registration you meet.
If you are not sure which condition for registration applies to the society please see chapters 4 and 5 of our guidance here.

7.1 Condition for Registration

- ◉ Co-operative society

○ Community Benefits society

Co-operative societies must answer the following questions in relation to the financial year covered by this return.

7A.1 What is the business of the society?

For example, did you provide housing, manufacture goods, develop IT systems etc.

Funeral and related activities.

7A.2 Please describe the members' common economic, social and cultural needs and aspirations.

In answering this question, please make sure it is clear what needs and aspirations members had in common.

The Society's ultimate parent is Co-operative Group Limited ('the Co-op'), which is owned and democratically controlled by its individual members and Independent Society Members. Its Purpose is to serve its Members by carrying on business as a co-operative for the benefit of its Members in accordance with Co-operative Values and Principles. The current expression of the Society's Purpose is "Championing a better way of doing business for you and your Communities". Members' common economic, social and cultural needs and aspirations include the ability to share in the profits of the Co-op, adherence to co-operative values and high ethical standards, support for local community causes, the promotion of Fair Trade, and campaigning to change society for the better.

7A.3 How did the society's business meet those needs and aspirations?

You have described the society's business answer to question 7A.1, and in question 7A.2 you have described the common needs and aspirations of members. Please now describe how during the year that business met those common needs and aspirations.

Members’ ability to share in the profits of the Co-op is met by receiving a payment of 2p for every £1 spend on selected Co-op products and services. The aspiration of support for local community causes is met by an associated payment of the same amount which is paid to the Co-op Local Community Fund with members having the choice of which local cause their funds are directed to. Members can also donate their entire rewards to the Local Community Fund.

How Co-op meets the needs and aspirations of members is set out in detail in our 2021 annual report and accounts. This includes: Co-op made a commitment at its 2022 AGM to support member participation; Racial Equality & Inclusion and Climate Change. This is in addition to its campaigning to change society for the better, examples of which are a longstanding campaign to end Modern Slavery and the ‘Safer Colleagues, Safer Communities’ campaign, which is committed to protecting Co-op colleagues as well as addressing the root causes of crime in society.

7A.4 How did members democratically control the society?

For example, did the members elect a board at an annual general meeting; did all members collectively run the society.

The Society's ultimate parent is Co-operative Group Limited ('the Co-op'). The Co-op is owned and democratically controlled by its individual and independent Society members. Members of the Co-op exercise democratic control by voting on motions at its General Meetings (including electing directors) and by directly electing Member Nominated Directors to the Board and representatives to the National Members' Council. All Directors and Members of Council are members of the Society and minimum trading requirements apply.

7A.5 What did the society do with any surplus or profit?

For instance, did you pay a dividend to members (and if so, on what basis); did money get reinvested in the business; put into reserves; used for some other purpose?

The Society did not pay a dividend to members this year. Surplus was transferred to reserves and re-invested in the business.

Funeral Services Limited

Financial statements

Registered number 30808R

Period ended 1 January 2022

Corporate Information

Directors

A Close	Resigned 30.06.2021
S Tyrer	
H Smith	Appointed 20.04.2021
S Khoury-Haq	Appointed 20.04.2021, Resigned 30.03.2022
G Stewart	

Secretary
C J Sellers

Auditors
Ernst & Young LLP, Statutory Auditor
Chartered Accountants
2 St Peter's Square
Manchester
M2 3EY

Registered Office
1 Angel Square
Manchester
M60 0AG

Contents

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society Law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

Funeral Services Limited's ("the Society") financial statements are required by law to give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that period.

In preparing the Society's financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

Independent auditor’s report to the members of Funeral Services Limited

Opinion

We have audited the financial statements of Funeral Services Limited for the 52-week period ended 1 January 2022 which comprise the Income statement, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes 1 to 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 “Reduced Disclosure Framework” (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Society’s affairs as at 1 January 2022 and of its income and expenditure for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society’s ability to continue as a going concern for the period to 30 June 2023.

Our responsibilities and the responsibilities of the Board with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Society’s ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. The Board is responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- the Society has not kept proper books of account; or
- a satisfactory system of control over transactions has not been maintained; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we required for our audit.

Responsibilities of the Board

As explained more fully in the directors’ responsibilities statement set out on page 4, the Board are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board are responsible for assessing the Society’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Society and determined that the most significant are the direct laws and regulations relating to elements of society law and tax legislation, and the financial reporting framework i.e. Co-operative and Community Benefit Societies Act 2014 and FRS 101. Our considerations of other laws and regulations that may have a material effect on the financial statements include the Health and Safety at Work Act 2015, National Minimum Wage Act 1998, and General Data Protection Regulation.
- We understood how Funeral Services Limited is complying with those frameworks by making enquiries with management, internal audit, and those responsible for legal and compliance matters.
- We assessed the susceptibility of the Society’s financial statements to material misstatement, including how fraud might occur by considering areas of significant judgement including complex transactions, performance targets, economic or external pressures and the impact that these have on the control environment. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.
- We designed audit procedures to address the risks identified in relation to revenue recognition, which included heightened procedures to address the risk of manual top-side adjustments to revenue. We incorporated data analytics into our audit approach to assist in our review of manual revenue entries.
- We identified a risk that management may override controls in certain key processes in order to achieve a desired financial reporting outcome. We determined that the most susceptible account to any such override is revenue. Our procedures to address the risk included testing journal entries from within a complete population of journals posted by the entity during the period and the use of data analytics to review trends in revenue recognition at the individual branch level.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries with those charged with governance and senior management for their awareness of non-compliance with laws and regulations, inquiring about policies that have been established to prevent non-compliance with laws and regulations by officers and employees and by inquiring about the Society’s methods of enforcing and monitoring compliance with such policies.

on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries with those charged with governance and senior management for their awareness of non-compliance with laws and regulations, inquiring about policies that have been established to prevent non-compliance with laws and regulations by officers

Use of our report

This report is made solely to the Society in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Society those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Ernst & Young LLP
Statutory Auditor
Manchester
Date:
29 June 2022

Income statement
for the period ended 1 January 2022

	Notes	**For period ended 1 January 2022**	For period ended 2 January 2021 (restated*)
		£'000	£'000
Revenue	3	**266,192**	270,906
Cost of sales		**(31,269)**	(26,107)
Gross profit		**234,923**	244,799
Administrative expenses		**(219,925)**	(249,583)
Other income	6	**-**	1,224
Operating profit / (loss)	4	**14,998**	(3,560)
Finance income (excluding funeral plans)	9	**2,852**	-
Finance costs (excluding funeral plans)	8	**(2,242)**	(2,283)
Net finance income / (costs) on funeral plans	8, 9	**(559)**	31,444
Profit on ordinary activities before taxation		**15,049**	25,601
Taxation	10	**(5,814)**	(8,977)
Profit for the period		**9,235**	16,624

All amounts relate to continuing activities.

Statement of comprehensive income
for the period ended 1 January 2022

The Society has no recognised income or expenses in the current or prior period other than those included in the income statement shown above, therefore a separate Statement of comprehensive income has not been presented. The total comprehensive profit for the period ended 1 January 2022 was £9,235k (period ended 2 January 2021: £16,624k profit).

* For more details on the restatement, refer to the accounting policies section on page 10.

The notes on pages 10 to 26 form an integral part of these financial statements.

Balance sheet

as at 1 January 2022

	Notes	As at 1 January 2022 £'000	As at 2 January 2021 (restated*) £'000	As at 5 January 2020 (restated opening*) £'000
Non-current assets				
Property, plant and equipment	12	**164,767**	174,007	182,635
Right-of-use assets	13	**40,365**	41,601	43,754
Goodwill and intangible assets	14	**38,426**	35,284	36,986
Funeral plan investments	15	**1,372,088**	1,324,107	1,270,995
Trade and other receivables	18	**196,021**	151,380	105,899
Contract assets	17	**43,319**	38,991	34,801
Deferred tax assets	22	**-**	-	4,890
Total non-current assets		**1,854,986**	1,765,370	1,679,960
Current assets				
Inventories	16	**3,732**	4,621	4,241
Trade and other receivables	18	**250,118**	260,843	262,384
Contract assets	17	**4,396**	3,777	2,533
Cash and cash equivalents		**109,344**	97,380	82,852
Total current assets		**367,590**	366,621	352,010
Total assets		**2,222,576**	2,131,991	2,031,970
Non-current liabilities				
Lease liabilities	13	**(38,508)**	(42,061)	(42,933)
Trade and other payables	19	**(464)**	(4,621)	(4,351)
Contract liabilities	20	**(1,573,435)**	(1,490,214)	(1,453,917)
Deferred tax liabilities	22	**(9,681)**	(9,269)	-
Provisions	21	**-**	-	(3)
Total non-current liabilities		**(1,622,088)**	(1,546,165)	(1,501,204)
Current liabilities				
Lease liabilities	13	**(9,589)**	(10,203)	(10,888)
Trade and other payables	19	**(51,365)**	(62,042)	(37,021)
Corporation tax	10, 19	**(5,437)**	5,182	561
Contract liabilities	20	**(189,328)**	(181,089)	(162,222)
Provisions	21	**(874)**	(3,014)	(3,160)
Total current liabilities		**(256,593)**	(251,166)	(212,730)
Total liabilities		**(1,878,681)**	(1,797,331)	(1,713,934)
Equity				
Called up share capital	23	**-**	-	-
Retained earnings		**(343,895)**	(334,660)	(318,036)
Total equity		**(343,895)**	(334,660)	(318,036)
Total equity and liabilities		**(2,222,576)**	(2,131,991)	(2,031,970)

* For more details on the restatement, refer to the accounting policies section on page 10.

The notes on pages 10 to 26 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 29 June 2022 and were signed on its behalf by:

S Tyrer
Director

G Stewart
Director

C J Sellers
Secretary

Statement of changes in equity

for the period ended 1 January 2022

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 5 January 2020 (restated*)	-	318,036	**318,036**
Profit and total comprehensive income for the period (restated*)	-	16,624	**16,624**
Balance at 2 January 2021 (restated*)	**-**	**334,660**	**334,660**
Profit and total comprehensive income for the period	-	9,235	**9,235**
Balance at 1 January 2022	**-**	**343,895**	**343,895**

* For more details on the restatement, refer to the accounting policies section on page 10.

The notes on pages 10 to 26 form an integral part of these financial statements.

Notes
(forming part of the financial statements)

1 Authorisation of financial statements and statement of compliance with FRS 101

Reporting entity

Funeral Services Limited ("the Society") is a Society and is registered and domiciled in England and Wales. The address of the Society's registered office is 1 Angel Square, Manchester, M60 0AG.

The principal activity of the Society is funeral directors and associated services in the United Kingdom.

Accounting date

The financial statements for the period are prepared for the 52 weeks to 1 January 2022. The Trading Group (Co-operative Group Limited, "Group" - see note 26) subsidiaries prepare their accounts for the first Saturday of January unless 31 December is a Saturday. Comparative information is presented for the 52 weeks ended 2 January 2021.

The principal accounting policies adopted by the Society are set out in note 2.

2 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

The Society meets the definition of a qualifying entity under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' and the Co-operative and Community Benefit Societies Act 2014.

The financial statements have been principally prepared on the basis of historical cost. Areas where other bases are applied are explained in the relevant accounting policy.

The Society is a wholly owned subsidary of Co-operative Group Limited ('the Group'), a registered society under the Co-operative and Community Benefit Societies Act 2014 registered in England and Wales. The Society faces the same risks and challenges in relation to climate change as it's ultimate parent undertaking (the Group) and manages these risks in-line with the Group's approach to climate change. The Group's overall approach to climate change (including our 10-point plan) is outlined in the Group's 2021 Annual Report and Accounts (ARA) - 'Fairer for our planet' section on page 28. Climate related risks are also explained within the risk managment section on page 46 of the ARA and Principal Risks and Uncertainties (Environment and Sustainability) on page 52 of the ARA. The Group's assessment of the potential impact on the long term viability of the Group is also set out on page 108.

Where applicable, the following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101. The specific exemptions that the Society has taken advantage of are :

- IFRS 7 Financial instruments : Disclosures
- Para 91-99 of IFRS 13 Fair Value Measurements
- Para 38 of IAS 1 Presentation of Financial Statements in respect of comparative information
- Para 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements
- IAS 7 Statement of Cash flows
- Para 30-31 of IAS 8 Accounting policies, changes in accounting estimates and errors
- Para 17 and 18A of IAS 24 Related party disclosures
- IAS 24 Intra-group transactions
- The second sentence of para 110 and paras 113(a), 114, 115, 118, 119(a) - (c), 120-127 and 129 of IFRS 15 Revenue from Contracts with Customers
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134 (f) and 135(c) to 135(e) of IAS 36, Impairment of Assets
- The requirements of paragraph 52, 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.

Restatement

The comparative figures presented within these financial statements for the financial year ended 2 January 2021 are consistent with the 2020 financial statements with the exception of restatements of the prior year as follows:

Debtors discounting on funeral plans - Prior to the adoption of the new accounting standard for revenue recognition under IFRS 15, funeral plan debtors and the associated funeral plan contract liabilities were discounted by the Society using the discount rate prevailing at each period end. Under IFRS 15, the accounting for funeral plan contract liabilities was changed so that the Society accreted the liability throughout the contract with the accretion rate being determined at contract inception and remaining in place throughout the life of the contract. However, the funeral plan debtor discounting continued to be calculated using the discount rate prevailing at each period end meaning that the treatment for corresponding assets and liabilities was inconsistent. This also led to the funeral plan debtor balances being accounted for incorrectly under IFRS 9 Financial Instruments, given that the debtor is a financial instrument measured under the amortised cost basis, they should not be adjusted for movements in the discount rate at each period end as was taking place under the old treatment.

Following discussion with the Board, the Society has recalcualted the funeral plan debtor discount on an amortised cost basis using the effective interest rate at the date of inception of the contract. The 2020 opening and closing balance sheet values have been restated to reflect this accounting treatment.

Plan discount deferred cost - In prior years, discounts offered to customers on the sale of a funeral plan, primarily for being members of the Co-operative Group, were recorded as deferred costs and recognised in the P&L within administrative expenses when the funeral is performed (the performance obligation of the funeral plan contract). In this year's accounts, the discounts have been reclassified as a reduction in the liability to perform the funeral as they should reduce the revenue recognised when the funeral is performed. The 2020 values have been restated to reflect this accounting treatment.

The tables below show the impact on those line items affected by the restatements:

Balance sheet as at 2 January 2021	**Originally reported £'000**	**Debtors discounting for funeral plans £'000**	**Plan discount deferred cost £'000**	**Restated £'000**
Non-current assets				
Trade and other receivables	161,854	(10,474)	-	151,380
Contract assets	59,920	-	(20,930)	38,990
Total non-current assets	**221,774**	**(10,474)**	**(20,930)**	**190,370**
Current assets				
Contract assets	5,822	-	(2,045)	3,777
Total current assets	**5,822**	**-**	**(2,045)**	**3,777**
Non-current liabilities				
Contract Liabilities	(1,526,652)	15,883	20,555	(1,490,214)
Deferred tax liability	(8,319)	(1,028)	78	(9,269)
Total non-current liabilities	**(1,534,971)**	**14,855**	**20,633**	**(1,499,483)**
Current liabilities				
Contract liabilities	(183,097)	-	2,008	**(181,089)**
Total current liabilities	**(183,097)**	**-**	**2,008**	**(181,089)**
Equity - retained earnings				
Balance at 4 January 2020	314,323	2,979	734	318,036
Profit and total comprehensive income for the period	16,289	1,402	(1,067)	16,624
Balance at 2 January 2021	**330,612**	**4,381**	**(333)**	**334,660**

Notes to the financial statements (continued)

2 Accounting policies (continued)

Restatement (continued)

Income statement as at 2 January 2021

	Originally reported £'000	Debtors discounting for funeral plans £'000	Plan discount deferred cost £'000	Restated £'000
Revenue	272,286	-	(1,380)	270,906
Net finance income on funeral plans	29,650	1,731	63	31,444
Taxation	(8,898)	(329)	250	(8,977)
Profit for the period	**16,289**	**1,402**	**(1,067)**	**16,624**

New and amended standards adopted by the Society

The Society has considered the following standards and amendments that are effective for the Society for the period commencing 3 January 2021 and concluded that they are either not relevant to the Society or do not have a significant impact on the financial statements:

- Covid-19 Related Rent Concessions beyond 30 June 2021 – Amendment to IFRS 16
- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 & IFRS 16)

Standards, amendments and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 1 January 2022 reporting periods and the Society has not early adopted the following standards and statements. The adoption of these standards is not expected to have a material impact on the Society's accounts:

- Amendments to IFRS 3 Reference to the Conceptual Framework *
- Amendments to IAS 16 Property, Plant and Equipment—Proceeds before Intended Use *
- Annual Improvements to IFRS Standards 2018-2020 Cycle - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, and IAS 41 Agriculture *
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current **
- Amendments to IAS 8 – Definition of Accounting Estimates **
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies **
- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction **
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture **

The adoption of the following standards will or may have a material impact on the Society's accounts when adopted and the Society's assessment of the impact of these new standards and interpretations is set out below:

Title	**IFRS 17 Insurance Contracts**
Nature of the change	IFRS 17 is a comprehensive new accounting standard covering recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 Insurance Contracts. In contrast to IFRS 4, the new standard provides a comprehensive model (the general model) for insurance contracts, supplemented by the premium allocation approach (which is mainly for short-duration contracts such as certain non-life insurance contracts). IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.
Impact	The standard will be effective for annual periods beginning on or after 1 January 2023 and management are currently assessing the impact of the new standard. Should the Society determine that any of its funeral products fall fully in scope of IFRS 17 then the impact will likely be material from a balance sheet perspective. The area most likely to potentially be impacted by the new standard would be our low cost instalment funeral plans (LCIPs) which are currently shown within Contract Liabilities (Note19) of the financial statements to a value of £348m.
Date of adoption by the Group	Applicable to annual reporting periods beginning on or after 1 January 2023 - for the Society this is not next year's financial statements (2022) but the following years being (2023).

Title	**IAS 37 Onerous contracts (amendments re cost of fulfilling contract)**
Nature of the change	IAS 37 requires an entity to recognise an onerous contract where the unavoidable costs of meeting a contractual obligation exceeds the economic benefits expected to be received under a contract. In such circumstances the present value of the obligation under the contract is recognised as a provision. In May 2020 the IASB issued a revision to IAS 37. The IASB now specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'; both the incremental costs of fulfilling that contract as well as an allocation of other costs that relate directly to fulfilling a contract.
Impact	Management is currently assessing the impact of the amendment to the standard upon the Society's funeral plans. Based on an initial assessment using 2021 costs, the wholesale cost would be lower than the revised IAS 37 cost, and so that would be the appropriate basis for the assessment. Our initial assessment is that the revision to the accounting standard could result in an immaterial onerous contract (£7.9m) being recognised in relation to one plan type, however there would remain an overall significant surplus across the portfolio as a whole. This will be revisited in the next financial year based on 2022 actual costs.
Date of adoption by the Group	Applicable to annual reporting periods beginning on or after 1 January 2022 - for the Society this will be next year's financial statements (2022).

* Effective for annual periods beginning on or after 1 January 2022 and ** 1 January 2023.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Critical accounting estimates and judgements

The preparation of financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key judgements:

In the process of applying the Society's accounting policies, management has made the following key judgements which have the most significant impact on the financial statements:

- Revenue from contracts with customers: Funeral plans - a significant accounting judgement is present in deriving a suitable accretion rate to apply to the monies received from a customer when they purchase a funeral plan. The accretion rate is required to reflect the borrowing rate that would be applied between the Society and the customer in a separate financing transaction reflecting similar credit characteristics and similar security at the point the contract is entered into. These rates are then fixed for the duration of the plan and we have plans which are up to 36 years old. The Society derives the relevant accretion rates based upon UK AA rated average corporate bond yields. When a customer enters into a funeral plan, the monies they pay to the Society, less an admin fee, are invested in whole of life insurance policies with FCA regulated institutions protected by the Government's financial services compensation scheme. For further protection, the proceeds of the investments are held on trust by an independent trustee, Apex Corporate Trustees (UK) Limited, to ensure that the customer is entitled to the benefit of the invested monies in the event that the Society goes out of business. Given this protection and security, a UK AA rated average corporate bond yield is considered to have a similar risk profile as that of a separate financing transaction between the Society and a customer and hence a suitable reference point for an accretion rate.

- Leases (note 13) - The Society determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Society has the option, under some of its leases to lease the assets for additional terms of 5 to 10 years. The Society applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Society reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

Key estimates and assumptions:

The key assumptions and areas of uncertainty around key assumptions at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Society based its assumptions and estimates on information available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Society. Such changes are reflected in the assumptions when they occur.

Pre-need funeral plan obligations (note 15 & note 20) - The Society holds investments on the balance sheet in respect of funeral plan policies which are invested in either individual whole-of-life policies, trusts or life assurance products. The investments are subject to an annual actuarial valuation. The headroom is estimated to be £177m (2020: £40m), see note 15. The actuarial report is a best estimate and is neither deliberately optimistic nor pessimistic. It is prepared by independent actuaries based on management assumptions such as future funeral and disbursement inflation. A 0.1% increase in the inflation assumptions would reduce the surplus by approximately £23m (2020: £24m).

The "wholesale" actuarial valuation is based upon the Society's estimate of the direct cost for a third party funeral director to perform the promised services and the payment of associated disbursements (crematoria, clergy fees etc) as if the Society were not in a position to carry out these funerals. No incremental overheads are included because it's assumed that the provider could absorb these funerals into existing infrastructures. As the Society fully intends to perform these funerals and undertake the professional funeral services itself the actual cost would in reality be lower and subsequent marginal cost surplus would be higher than the wholesale cost surplus.

- Impairment of non-financial assets (notes 12, 13 & 14) - the carrying amount of non-financial assets (such as property, plant and equipment, right-of-use assets, goodwill and intangibles) are reviewed at each balance sheet date and if there is any indication of impairment, the asset's recoverable amount is estimated. The recoverable amount is the greater of the fair value of the asset (less costs to sell) and the value in use of the asset. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its estimated recoverable amount. For property assets the fair value less costs to sell are measured using internal valuations based on the rental yield of the property.

The Society considered whether the COVID-19 pandemic and the accompanying economic uncertainty had the potential to represent a significant impairment indicator as at 1 January 2022. Despite additional associated costs of responding to the pandemic, which are expected to be temporary, the Society's main business areas have proved resilient and the performance of the Society's cash-generating units has remained strong. Therefore, management concluded that the impact of COVID-19 on the longer term outlook for these cash-generating units did not constitute an indicator of significant impairment and hence a full impairment test across all CGUs was not required.

The Society estimates the value in use of an asset by projecting future cash flows into perpetuity and discounting the cash flows (DCF) associated with that asset at a pre-tax discount rate of 8.8% (2020: 9.5%).

Going concern

The Society generated a profit of £9,235k in the period (2020: £16,624k) and at the balance sheet dates holds net assets of £343,895k (2020: £334,660k).

The Society is reliant on the support of Co-operative Group Limited ("the Group") in order to meet its day to day working capital requirements because the Group operates a central treasury function. The Society meets these requirements through cash generated from its operations and participation in facility arrangements provided by external lenders to the Group and certain of its subsidiaries, including the Society ("the Group facilities"). A letter of support has been obtained from the Group as evidence of its intention to give continued financial support. The Group has confirmed that it has the ability to provide such financial support and has committed to providing such support until at least 30 June 2023.

As such, an assessment of the Group was undertaken by the Group Directors to determine the appropriateness of the going concern basis of preparation for its subsidiaries, including the Society.

Our Co-op borrows money from banks and others, and as part of this process we have checked that we can comply with the terms of those agreements, for example, banking covenants and facility levels. Accounting standards require that the foreseeable future covers a period of at least 12 months from the date of approval of the financial statements, although they do not specify how far beyond 12 months a Board should consider. The assessment of going concern relies heavily on the ability to forecast future cashflows over the going concern assessment period, to 30 June 2023. Although our Co-op has a robust planning process, the current economic uncertainty (driven by factors including ongoing Covid 19 impact, inflation and rising energy costs) means that additional sensitivities and analysis have been applied to test the going concern basis under a range of downside test scenarios. The following steps have been undertaken to allow the directors to conclude on the appropriateness of the going concern assumption:

1) Understand what could cause our Co-op not to be a going concern in relation to facility headroom and covenant compliance.

In making their assessment the directors have considered a wide range of information relating to present and future conditions, including future forecasts of profitability; cash flow and covenant compliance; and available capital resources.

The potential scenarios which could lead to our Co-op not being a going concern are:

a. Not having enough cash to meet our liabilities as they fall due. Throughout the going concern period the facility limit within which we need to operate is £1,179m, which includes £779m non-bank facilities and £400m bank syndicate facilities; and/or

b. A breach of the financial covenants implicit in our bank facility agreement.

• Net Debt Leverage: Consolidated net debt as a multiple of bank-defined EBITDA must not exceed 3.00:1.00 at each six-monthly covenant test date.
• Adjusted Interest Cover: The bank-defined EBITDA (further adjusted by a fixed rental figure) as a multiple of the consolidated net finance charges, must not fall below 1.75:1.00 measured at each six-monthly covenant test date.

We note at the year end date, of the total £1,179m of facilities available to us, we were £972m drawn-down. Post the balance sheet date, there have been positive changes to the liquidity position.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Going concern (continued)

2) Board review and challenge the base case forecast

We have conducted a detailed forward planning exercise as part of our strategic plan. The Co-op's base case forecast includes prudence due to the uncertainty in the market due to geo-political factors, inflation and rising energy costs. The Board have reviewed and approved these plans.

The key assumptions in the plan are:

1.Year on year modest sales growth driven by inflation. Such inflation will be driven by various cost inflationary pressures, primarily in the cost of goods.

2.Cost optimisation program to drive higher operational efficiencies.

3.A capital light store growth program to drive higher cash generation and reduce indebtedness.

3) Consider downside sensitivities across the base case forecast

In undertaking our going concern assessment, we have included assumptions related to the impact of the pandemic and uncertain economic environment, and modelled further severe but plausible downside sensitivities of internal and external factors on the financial projections including (but not limited to):

• A reduction in the sales in our Food Retail business, with a prudent 1% reduction to sales volume. Reducing the Net sales from the base case
• A reduction in the demand of our Funeralcare business, with a prudent 1% reduction in sales.
• An increase in cost price inflation of 0.5% incremental to what has been used within our base model. It is also assumed that none of that is passed through to the sales price inflation.
• An increase in energy cost for unhedged volumes priced at prevailing market rate adding a further 15% premium for 2022 and 7.5% premium for 2023.
• Assuming 75% of our cost saving initiative across 2022 and 2023, is not achieved.

During the preparation of these various downside scenarios, we have also reviewed the impact of the Russia – Ukraine conflict and continue to monitor the scenario through the involvement of the senior members of the organisation with various industry bodies. We note that our sourcing of products from Russia and Ukraine is limited. We note that the direct impact of the conflict to Co-op is proportionately lower, driven by the British sourcing strategy and lesser exposure to National Brands with broader supply chains given tighter range offer.

The sensitivities identified above do not risk the validity of our Co-op as a going concern even before applying the mitigating actions set out below. Also, we have considered a plausible combination of the sensitivities happening concurrently where the validity remains protected. Only in the highly implausible scenario of all the sensitivities happening simultaneously will we need mitigating actions to be taken.

4) Examine what mitigating actions would be taken in the event of these scenarios

Whilst out of line with our strategic ambition, there are several options within the business's control we could exercise, if the above risks materialised. Options include:

• Our Co-op's ability to control the level and timing of its capital expenditure programme
• Apply cost control measures across both variable and overhead budgets, as well as flexibility to the level of pass through of energy and cost inflation to the end customer.

5) Perform a reverse stress test and assess any further mitigating actions

Whilst our initial going concern approach assesses likely risks to our base case forecasts through severe but plausible downside scenarios and options to mitigate them, the reverse stress test represents a worst-case scenario at which point the model breaks. Whilst unlikely, to demonstrate the above, we have modelled a significant downturn in the grocery market driven by cost of living inflation and geo-political uncertainty of a further -4% retraction in Retail sales and a further reduction in funeral volume of -5%. In addition, we have modelled the impact of a higher than expected Food cost inflation and further energy price rises.

We note, however, that we could mitigate the reverse stress test scenario through a further reduction or delay in capital expenditure and a change in the timing of our investment into operational improvements. There is also the option to apply further cost control measures and flexibility to pass a higher level of energy and cost inflation onto the end customer. Whilst all remain undesirable strategically there is also the option to apply further stringent cost control measures.

The Society Directors have considered the exercise performed by the Group Directors and have made appropriate enquiries where necessary. The Society Directors have also reviewed internal forecast documentation, management accounts and publicly available information relating to the Group's performance and are satisfied that the Group has access to sufficient funds to honour its commitments set out in the letter of support obtained from the Group. For this reason, the Society Directors continue to adopt the going concern basis in preparing the Society's financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at bank and short-term deposits with banks with a maturity of three months or less, which are subject to an insignificant risk of changes in value. Cash and cash equivalents includes debit and credit card payments made by customers which are receivable from banks and clear the bank within three days of the transaction date.

Property, plant and equipment and depreciation

Property, plant and equipment is measured initially at historical cost and includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Fixed assets in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Society's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	2.0% per annum
Plant and machinery	-	7.5% - 33.0% per annum
Fixtures and fittings	-	12.5% per annum
Motor vehicles	-	11.1% - 25% per annum

The residual value, if not insignificant, is reassessed annually.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

No depreciation is provided on freehold land.

Notes to the financial statements (continued)

2 Accounting policies (continued)

IFRS 16 Leases

i) Right-of-use assets

The Society recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Society is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the Society recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Society and payments of penalties for terminating a lease, if the lease term reflects the Society exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Society uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Society applies the short-term lease recognition exemption to its short-term leases of plant and machinery (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Intangible assets

(i) Goodwill

Goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Assets and liabilities accepted under a transfer of engagements are restated at fair value, including any adjustments necessary to comply with the accounting policies of the Society.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of associates, the carrying value of goodwill is included in the carrying amount of the investment in the associate. Where impairment is required the amount is recognised in the income statement and cannot be written back.

Negative goodwill arising on an acquisition is recognised directly in the income statement. Acquisition costs are expensed to the income statement when incurred.

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill with an indefinite useful life is tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Software development costs	3-7 years

(iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is charged to the income statement as incurred.

Impairment

At each reporting date, the Society reviews the carrying amounts of its property, plant and equipment, intangible assets, goodwill and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss. Impairment losses are recognised in the income statement.

Where the asset does not generate cash flows that are independent from other assets, the Society estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. The CGU is deemed to be a local network of interdependent branches. Where an individual branch within a local network is to be closed, the individual branch is defined as the CGU, rather than being included with the network of interdependent branches. This is because the branch is no longer expected to contribute to the business through cash generated through its operating activities but instead through any proceeds on disposal.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount is returned to what it would have been, net of depreciation or amortisation, if no impairment loss had been recognised.

Where an individual branch within a local network is to be closed, the CGU attributable to that branch is redefined as being solely that individual branch on the basis that the branch is no longer expected to contribute to the business through cash generated through its operating activities but instead through any proceeds on disposal.

Funeral plans

When a customer takes out a funeral plan the initial plan value is recognised as an investment asset in the balance sheet and at the same time a liability is also recorded in the balance sheet representing the deferred income to be realised on performance of the funeral service covered by each of the funeral plans. The investments are held in insurance policies or cash-based trusts and attract interest and bonus payments throughout the year dependent upon market conditions. The plan investment is a financial asset, which is recorded at fair value each period through the income statement in accordance with IFRS 9 using valuations provided by the insurance policy provider or reflecting the trust cash balances. The performance obligation to deliver the funeral is treated as a contract liability (deferred income) under IFRS 15. The deferred amount is subject to adjustment to reflect a significant financing component which is charged to the income statement each period. The liability accretes interest in-line with the discount rate applied to the plan on inception. The discount rate applied is based on an estimated borrowing rate between the customer and the Society at the point the contract is entered into. The contract liability is held on the balance sheet as additional deferred income until the delivery of the funeral at which point the revenue is recognised.

Contract Liabilities

Amounts received from plan holders are deferred on the balance sheet within contract liabilities until the related funeral is performed. The deferred amount is subject to adjustment to reflect a significant financing component. This significant financing component is calculated based on the expected discount rate that would be reflected in a separate financing transaction between the Society and the plan holder at the inception of the contract and is charged to the income statement as a finance cost (note 7) each period until the performance obligation is satisfied. The discount rate applied is fixed at inception of each plan and is based on the estimated incremental borrowing rate of the Society at the time of each cash flow. The corresponding obligation to deliver the funeral is shown in the balance sheet as a contract liability until the funeral is performed (at which point the revenue is recognised). When the service prescribed by the plan is delivered, revenue is recognised equal to the deferred revenue balance related to the specific plan.

Contract Assets

A contract asset is recognised when our right to consideration is conditional on something other than the passage of time. For funeral plans, fulfilment costs (which are costs relating directly to the plan sale which otherwise wouldn't have been incurred) are deferred and shown in the balance sheet as a contract asset. The costs are then recognised in the income statement at the point that the funeral is performed and in line with when the revenue is recognised.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Funeral benefit options (FBOs)

FBOs are attached to Guaranteed Over 50's life insurance plans (GOFs) sold by the Society's third party insurance partners. An FBO is the assignment of the sum-assured proceeds of a GOF policy to the Society for the purposes of undertaking their funeral. In exchange the GOF customer is awarded a discount on the price of the funeral.

No revenue is recognised by the Society at the point of assignment and instead an element of the costs that have been incurred in obtaining the FBO are deferred onto the balance sheet. These are then expensed at the point of redemption when the revenue is recognised. Any plans that are cancelled are written off at the point at which the Society is made aware of the cancellation. A separate provision is also made to cover the expected cancellations of FBOs. No investment or liability is recognised for FBOs as the option does not guarantee a funeral and the liability for which remains with the insurance partner. Any difference between the funeral price and the sum assured at the point of redemption is the liability of the deceased estate or whoever takes responsibility for arranging the funeral.

Low Cost Insurance Funeral Plans (LCIPs)

LCIPs can be paid for by instalments over between 2 and 25 years or they can be paid off in full at any time during this period without any penalties. If the plan holder dies before the instalments have been made in full (and provided that the plan has been in place for at least 12 months or the cause of death was as a result of an accident) then the funeral will still be provided by the Society and the customer will not have to settle the outstanding balance on any instalments and the balance of any monies owed will be waived. Any outstanding amounts owed to the Society (the difference between the full value of the plan and the amount paid up to death by the customer) are covered by an assured benefit from a third party insurer. The assured benefit is between the Society and the third party insurer and has nothing to do with the customer. The Society continues to apply instalment monies received against customers' individual funeral plans until such time as a plan is redeemed and or cancelled.

The assured benefit between the Society and the 3rd party is judged to represent an insurance contract and as such falls under the scope of IFRS 4 (Insurance Contracts). In line with IFRS 4 the Society accounts for the LCIPs in the same way as a normal funeral plan (see accounting policy above).

Financial Assets and Liabilities

i) Recognition of financial assets

Financial assets are recognised on the trade date which is the date it commits to purchase the instruments. Loans are recognised when the funds are advanced. All other financial instruments are recognised on the date that they are originated. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Society's business model for managing them. The Society initially measures a financial asset at its fair value, with the exception of trade receivables that don't contain a significant financing component or where the customer will pay for the related goods or services within one year of receiving them. For financial assets which are not held at fair value through the income statement, transaction costs are also added to the initial fair value. Trade receivables that don't contain a significant financing component or where the customer will pay for the related goods or services within one year of receiving them are measured at the transaction price determined under IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments).

ii) Derecognition of financial assets and financial liabilities

Financial assets are derecognised when they are qualifying transfers and:

- the rights to receive cash flows from the assets have ceased; or
- the Society has transferred substantially all the risks and rewards of ownership of the assets.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing liability is replaced by the same counterparty on substantially different terms or the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability is recognised, with any difference in carrying amounts recognised in the income statement.

When cash is received from the customer for a funeral plan, an element of commission is taken by the Society to cover the initial costs of setting up the plan. This amount is held as deferred income within contract liabilities and is recognised as revenue once the funeral is performed.

In line with the terms and conditions of the Society's LCIPs, funeral plans can be cancelled if the customer fails to meet their obligations under those terms and conditions. Upon cancellation of the plan all assets and liabilities associated with the plan are derecognised.

Measurement

The Society calculates expected credit losses in line with guidance under IFRS 9. Where there is evidence of impairment, any impairment loss is recognised in the income statement.

Receivables and payables

For receivables and payables with a remaining life of less than one year, the nominal amount is deemed to reflect the fair value, where the effect of discounting is immaterial.

Payable and receivables with a remaining life in excess of one year are deemed to be financial assets or liabilities and are initially measured at the present value of the future cashflows. Such assets and liabilities are subsequently carried at amortised cost.

Dividend distribution

Dividend distributions to the Society's members are recognised as a liability in the Society's financial statements in the period in which the dividends are approved by the Society's members.

Pensions and other post-retirement benefits

The Society's employees were members of a Group (Co-operative Group Limited) wide pensions scheme, the Co-operative Group Pension (Average Career Earnings) Scheme (the Pace Complete Scheme). This Pace Complete Scheme is a defined benefit scheme. The Society contributed to the Pace Complete Scheme in respect of its employees who were members of the Scheme up until the end of October 2015 when it was closed to future accrual. However, the Society is unable to identify its share of the underlying assets and liabilities of the scheme and therefore contributions to the scheme up until the end of October 2015 were accounted for as if it were a defined contribution scheme. There is no contracted agreement or stated Group policy for charging the net defined benefit cost for the plan as a whole measured in accordance with IAS 19 to individual Group entities, therefore Funeral Services Limited, in its individual financial statements, cannot recognise the net defined cost so charged. Refer to disclosure of information relevant to the scheme on note 7.

A defined contribution scheme is a pension plan under which the Society pays contributions into a separate entity and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets. Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Inventories

Inventories and work in progress are stated at the lower of cost, including attributable overheads, and net realisable value. The cost of finished goods and work in progress includes the cost of materials and direct labour.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. All borrowing costs are expensed when occurred except when they are directly attributable to the acquisition, construction or production of a qualifying asset. If this is the case, they are included in the cost of the asset.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Taxation

(i) Income tax

Income tax on the profit or loss for the period comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred taxation

Deferred tax is provided, with no discounting, using the balance sheet liability method, providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profits and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. In the case of investment properties it is assumed that uplifts on valuation principally reflect future rentals.

The deferred tax assets and liabilities of the Society are presented net in the Balance Sheet. This is because the Society is allowed, under UK legislation, to make a single net corporation tax payment giving it the right of off-set.

Revenue

Revenue is recognised in line with IFRS 15 (Revenue from Contracts with Customers). Revenue is recognised when separate performance obligations are delivered to the customer. For funeral sales ('at need') and funeral plan sales ('pre need') the only separable performance obligation is the funeral itself and therefore revenue is only recognised when the funeral is performed (or the plan is redeemed and the funeral is performed).

The Society pays certain disbursements (such as burial plots, cremation fees) on behalf of its customers, which are recovered as part of the invoicing process. The charges are passed through to customers at cost with Co-op acting as an agent in the transaction and therefore no revenue is recognised.

All revenue is derived from the Society's principal activity of funeral directors and associated services in the United Kingdom.

In the supply of monumental masonry, revenue is recognised at the point the masonry is fitted into place.

Member Rewards

The member rewards earned as part of the membership offer are recognised as a reduction in sales at the point they are earned with a corresponding liability being held on the balance sheet. The liability is reduced when the rewards are redeemed. From October 2020 onwards then member rewards are earned at 2% of sales value (prior to that at 5%). The Community reward is recognised as an operating expense in the income statement when it is earned (from October 2020 at 2% of sales value (prior to that at 1%)).

Share capital

Where the Board has an unconditional right to refuse redemption of co-operative share capital, such shares are treated as equity.

Provisions

A provision is recognised in the balance sheet when the Society has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Investments in funeral plans

Where there is no active market or the investments are unlisted, the fair values are based on commonly used valuation techniques.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to do so and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Functional currency

The functional currency for the Society is pound sterling which is also the presentation currency. All amounts are rounded to the nearest thousand unless otherwise stated.

Notes to the financial statements (continued)

3 Revenue

	For period ended 1 January 2022 £'000	For period ended 2 January 2021 £'000 (restated*)
Provision of services	269,878	275,133
Member reward on provision of services	(3,686)	(4,227)
Net revenue (as shown in the consolidated income statement)	**266,192**	**270,906**

4 Operating profit

Profit on ordinary activities before taxation is stated after charging / (crediting):	**For period ended 1 January 2022 £'000**	**For period ended 1 January 2022 £'000**	For period ended 2 January 2021 £'000	For period ended 2 January 2021 £'000
Depreciation of property, plant and equipment		**24,175**		21,513
Depreciation of right-of-use assets		**7,754**		7,928
Branch closure dilapidations and onerous lease provisions	(233)		4,198	
Branch closure property, plant and equipment impairment	1,831		6,022	
Branch closure right-of-use asset impairment	-		3,775	
Branch closure goodwill impairment	-		977	
Branch closure		**1,598**		14,972
Profit on sale of property, plant and equipment - Others	(576)		(271)	
Other impairment of property, plant and equipment	3,440		416	
Other impairment of right-of-use assets	-		2,242	
Other impairment of goodwill	-		598	
Impairment and loss on disposal of property and fixed assets		**2,864**		2,985
Profit on disposal of subsidiary*		**(3,684)**		-
Cost of inventory consumed		**12,334**		12,260
Staff costs (see note 5)		**104,696**		116,395
Expected credit loss on debtors		**56**		1,440
Community reward earned		**899**		641

The auditor's remuneration of £39,235 (2020: £68,572) is borne by the ultimate parent undertaking.

Operating loss includes £1.9m (2020: £5.2m) of business rates relief received under the UK Government's Coronavirus Job Retention Scheme. This amount has been netted against the relevant cost line in operating profit.

*On 9th December 2021, business and assets relating to Woodlands Burial Grounds were transferred to Project Arlington Newco Limited (the Company), a wholly owned subsidairy of the Society. The Society then subsequently sold the shares in the Company prior to the year end, resulting in a profit on disposal of the subsidiary.

5 Staff numbers and costs

The average number of persons employed by the Society (including Directors) during the period, analysed by category, was as follows:

	Number of employees for period ended 1 January 2022	Number of employees for period ended 2 January 2021
Full-time	1,971	2,214
Part-time	1,971	2,055
	3,942	4,269

The aggregate payroll costs of these persons were as follows:

	For period ended 1 January 2022 £'000	For period ended 2 January 2021 £'000
Wages and salaries	88,482	99,174
Social security costs	7,205	7,642
Other pension costs (see note 7)	9,009	9,579
	104,696	116,395

	For period ended 1 January 2022 £'000	For period ended 2 January 2021 £'000
Directors emoluments	655	997
Society pension contributions to personal pension schemes	3	4
	658	1,001

The emoluments of the highest paid Director amounted to £410k (2020: £647k), this did not include any contributions to personal pension schemes (2020: £nil).

Notes to the financial statements (continued)

6 Other income

	For period ended 1 January 2022 £'000	For period ended 2 January 2021 £'000
Employee furlough payments	**-**	1,224

Other income represents £nil (2020: £1,224k) of employee furlough payments received under the UK Government's Coronavirus Job Retention Scheme.

7 Pension Scheme

The Society is a wholly owned subsidiary of Co-operative Group Limited ("Group") which operated a defined benefit scheme (the Pace Complete scheme) up until the end of October 2015 when it was closed to future accrual. The assets are held in a separately administered trust. Until December 2013, the Pace scheme was defined as a Group plan, as all participating entities were under the common control of Co-operative Group Limited (the sponsoring employer). Following the recapitalisation of The Co-operative Bank PLC in December 2013, the various entities participating in the Pace plan are no longer under common control of the Group and as a result, the Pace scheme became a multi employer scheme. Full details of the Pace plan for the period ending 1 January 2022 are disclosed in the Group's consolidated financial statements for that period.

This Society is neither the sponsoring entity nor legally defined as a participating employer of the Pace Complete scheme. However, as the Society either currently employs or has historically employed members of the Pace scheme, the charge made to the Society up until the end of October 2015 by the ultimate parent Society for employment costs included a charge in respect of the Pace scheme at an agreed percentage of the pensionable wage. The agreed percentage of pensionable wage was determined by an independent qualified actuary.

As the Pace Complete Scheme was closed to future accrual at the end of October 2015, the Pace DC scheme was expanded. The amount recognised as an expense in respect of the Pace DC scheme for this Society was £9,009k (2020: £9,579k). This is included in the staff costs as disclosed in note 4. The employer contributions made by the Society have been charged to the income statement when incurred.

8 Finance costs

	For period ended 1 January 2022 £'000	For period ended 2 January 2021 £'000
Interest accruing on funeral plan liabilities (note 20)	56,697	51,425
Interest on leases	2,242	2,283
	58,939	53,708

9 Finance income

	For period ended 1 January 2022 £'000	For period ended 2 January 2021 (restated*) £'000
Unrealised fair value movement on funeral plan investments (note 15)	53,432	80,546
Discount unwind on funeral plan debtors	2,706	2,323
Interest on intra-group loans	2,852	-
	58,990	82,869

10 Taxation

Analysis of credit in period	For period ended 1 January 2022 £'000	For period ended 2 January 2021 (restated*) £'000
UK corporation tax		
Group relief receivable	**(5,437)**	6,379
Current tax receivable / (payable) - adjustments in respect of prior periods	**35**	(1,197)
Total current tax	**(5,402)**	5,182
Deferred tax (see note 22)		
Deferred tax credit / (charge) - current period items	**1,614**	(12,323)
Deferred tax adjustments in respect of prior periods	**298**	(868)
Effect of rate of change on closing balance	**(2,324)**	(968)
Total deferred tax	**(412)**	(14,159)
Tax charge for the period	**(5,814)**	(8,977)

* For more details on the restatement, refer to the accounting policies section on page 10.

10 Taxation (continued)

Factors affecting the tax charge for the current period

The tax on the net profit before tax differs from the theoretical amount that would arise using the standard applicable blended rate of corporation tax of 19**%** (2020: 19%) as follows:

	For period ended 1 January 2022 £'000	For period ended 2 January 2021 (restated*) £'000
Current tax reconciliation		
Profit before tax	**15,049**	25,601
Tax at 19**%** *(2020: 19%)*	**(2,859)**	(4,864)
Effects of:		
Expenses not deductible for tax purposes	**(2)**	(16)
Non-taxable income	**(1)**	-
Depreciation and amortisation on non-qualifying assets	**(1,140)**	(468)
Transfer pricing	**487**	399
Fixed asset impairments	**(654)**	-
Adjustments to tax charge in respect of previous periods	**333**	(2,065)
Deferred tax rate change adjustment	**(2,324)**	(968)
Profit/ (loss) on disposal of fixed assets	**346**	(995)
Total income tax charge (see above)	**(5,814)**	(8,977)

Following the Budget on the 3 March 2021, the Chancellor announced that the main rate of Corporation Tax will increase from 19% to 25%, with effect from the 1 April 2023.

Under IFRS (IAS 12) it is the rate enacted at the balance sheet date that determines the amount of deferred tax to be recognised. As the 25% rate has been enacted at the balance sheet date, to the extent the deferred tax assets and liabilities are expected to crystalise after 1 April 2023, they should be valued using 25% instead of the current corporation tax rate of 19%. While a minority of assets and liabilities are forecast to unwind between the balance sheet date and 1 April 2023, it is expected that this is immaterial to the overall deferred tax balance and therefore a flat rate of 25% has been applied.

The impact of recognising the net deferred tax liabilities at 25% is an increase in the liabilities of £2,324k.

11 Dividends

A dividend of £nil was declared in the year (2020: £nil).

Notes to the financial statements (continued)

12 Property, plant and equipment

	Freehold land and buildings	Plant and machinery	Fixtures and fittings	Motor vehicles	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 2 January 2021	138,100	6,919	144,538	54,404	8,189	352,150
Additions	60	64	109	71	26,160	26,464
Disposals	(1,257)	(233)	(2,396)	(1,996)	(4,445)	(10,327)
Transfers from assets under construction	5,729	5,896	13,674	904	(26,203)	-
Transfers to right-of-use assets (see note 13)	-	-	-	-	(507)	(507)
Intra-group statutory transfer	(6,902)	-	(1,058)	(414)	-	(8,374)
At 1 January 2022	**135,730**	**12,646**	**154,867**	**52,969**	**3,194**	**359,406**
Depreciation						
At 2 January 2021	46,447	3,235	83,275	45,186	-	178,143
Charge for the period	2,651	6,133	12,239	3,152	-	24,175
Disposals	(210)	(234)	(1,667)	(1,988)	-	(4,099)
Intra-group statutory transfer	(2,311)	-	(862)	(407)	-	(3,580)
At 1 January 2022	**46,577**	**9,134**	**92,985**	**45,943**	**-**	**194,639**
Net book value						
At 1 January 2022	**89,153**	**3,512**	**61,882**	**7,026**	**3,194**	**164,767**
At 2 January 2021	91,653	3,684	61,263	9,218	8,189	174,007
Capital work in progress included above	**-**	**-**	**-**	**-**	3,194	**3,194**

Impairment of £1,831k (2020: £6,022k) for funeral homes that are expected to close in 2022 is recognised within branch closures in the income statement.

Freehold land is not depreciated. Freehold land was £13,989k as at 1 January 2022 (2020: £15,333k).

The Society has assets in use which are fully written down with nil NBV. As at 1 January 2022, the cost of fully written-down assets was £91,810k (2020: £79,783k).

Impairment

The recoverable amount for cash generating units (CGUs) is the greater of the fair value of the CGU (less costs to sell) and the value in use (VIU) of the CGU. The value in use for CGUs has been determined using discounted cash flow calculations.

The key assumptions in the value in use calculations are as follows:

Assumption	Detail
Structure of a CGU	A CGU is deemed to be a local network of interdependent branches, known as a Funeralcare Hub.
Cash flow years / assumptions	Derived from Board approved three-year plan cash flow projections. These cash flows are extrapolated over the remaining lease term for leasehold properties or into perpetuity for freehold properties. Perpetuities included in cash flows where the Hub is expected to be operational beyond its current lease terms. A growth rate of 1.9% (2020: 0%) is applied beyond Board approved three-year plan horizon.
Discount rate	Post tax discount rate representing the weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 8.8% (2020: 9.5%). Post tax WACC calculated using the capital asset pricing model. Certain inputs into the capital asset pricing model are not readily available for non-listed entities. As such, certain inputs have been obtained from industry benchmarks which carries a measure of estimation uncertainty. However, as discussed in the sensitivity section below, this estimation uncertainty level is not deemed to be material. In each of the current and comparative years, sensitivity analysis has been performed in relation to our Funeralcare Hub impairment testing, testing for a 1% increase in discount rate and a decrease in growth to minus 1%; within both these sensitivities no additional material impairment was calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions. Sensitivity analysis has also been performed on our goodwill impairment testing, see below.

Goodwill impairment - sensitivity testing

For the Society's goodwill impairment review, average selling price increases and wage and cost inflation have been applied in line with the assumptions in the three-year plan. Although inherently uncertain this also includes our best estimate of future death rates including the recent impact of Covid-19. Cash flows have been projected based on the three-year plan and into perpetuity from year four and discounted back to present value using a pre-tax discount rate of 8.8% (2020: 9.5%). A long term growth rate of 1.9% has been applied beyond the three-year plan period (2020: 0%). Sensitivity analysis has been performed with the discount rate increased by 1% and a decrease in growth by minus 1%, and under these sensitivities no further material amounts of impairment are calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.

Notes to the financial statements (continued)

13 Leases

As a lessee

Right-of-use assets

	Property £'000	Plant and equipment £'000	Total £'000
Balance at 2 January 2021	27,847	13,754	**41,601**
Depreciation charge for the year	(4,545)	(3,209)	**(7,754)**
Additions	5,891	558	**6,449**
Transfers from assets under construction (see note 12)	-	507	**507**
Disposals	(115)	(266)	**(381)**
Impairment	-	-	**-**
Intra-group statutory transfer	(57)	-	**(57)**
Balance at 1 January 2022	**29,021**	**11,344**	**40,365**

The Society leases many assets, principally it leases properties for its funeralcare branches as well as some vehicles and other equipment. The leases of funeralcare branches are typically between 1-25 years in length. Vehicle and equipment leases are typically between 1-4 years in length and in some cases the Society has options to purchase the assets at the end of the contract term.

Lease liabilities

	As at 1 January 2022 £'000	As at 2 January 2021 £'000
Current	(9,589)	(10,203)
Non-Current	(38,508)	(42,061)
Lease liabilities included in the balance sheet	**(48,097)**	(52,264)

	As at 1 January 2022 £'000	As at 2 January 2021 £'000
Lease liabilities - maturity analysis (undiscounted)		
Less than 6 months	(4,733)	(4,606)
6 - 12 months	(4,507)	(4,465)
1 - 2 years	(8,433)	(8,098)
2 - 5 years	(18,265)	(18,549)
5 - 10 years	(12,076)	(12,589)
10 - 15 years	(6,156)	(5,157)
More than 15 years	(5,666)	(4,934)
Total lease liabilities	**(59,836)**	(58,398)

	As at 1 January 2022 £'000	As at 2 January 2021 £'000
Opening lease liabilities	(52,264)	(53,821)
Additions	(6,897)	(11,866)
Disposals	487	270
Interest expense	(2,242)	(2,348)
Payments	10,597	11,158
Intra-group statutory transfer	2,222	4,343
Closing lease liabilities	**(48,097)**	(52,264)

Extension and termination options

Some leases of funeral branches contain extension or termination options exercisable by the Society up to one year before the end of the non-cancellable contract period. Where practicable, the Society seeks to include extension and termination options in new leases to provide operational flexibility. The extension and termination options held are typically exercisable only by the Society and not by the lessors.

The Society assesses at lease commencement whether it is reasonably certain to exercise the extension or termination options. The Society reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

As at 1 January 2022, potential future cash outflows of £2.5m (2020: £3.1m) (discounted) have not been included in the lease liability because it is not reasonably certain that the Society will exercise the extension option. Included within the lease liability are future cash outflows of £14.8m (2020: £14.6m) (discounted) where the Society holds termination options but it is not reasonably certain to execute those termination options.

Notes to the financial statements (continued)

14 Goodwill and intangible assets

	Goodwill £'000	Computer Software £'000	£'000
Cost			
At 2 January 2021	39,876	-	39,876
Disposals	(3,956)	-	(3,956)
Additions		7,080	7,080
At 1 January 2022	**35,920**	**7,080**	**43,000**
Amortisation			
At 2 January 2021	4,592	-	4,592
Disposals	(18)	-	(18)
At 1 January 2022	**4,574**	**-**	**4,574**
Net book value			
At 1 January 2022	**31,346**	**7,080**	**38,426**
At 2 January 2021	35,284	-	35,284
Capital work in progress included above	-	7,080	**7,080**

Impairment charges of £153k (2020: £977k) are recognised in property closures within the income statement.

For further detail in relation to the critical accounting policies and estimates used in the Society's impairment assessment of goodwill, please refer to note 12.

15 Funeral plan investments

	As at 1 January 2022 £'000	As at 2 January 2021 £'000
At beginning of year	1,324,107	1,270,995
Net plan investments (including ongoing instalments)	99,683	86,489
Existing funeral plans redeemed and cancelled	(105,134)	(113,923)
Fair value movement on funeral plan investments recognised in income statement	53,432	80,546
At end of year	**1,372,088**	1,324,107

Included in the balances above are Low Cost Instalment Funeral Plans (LCIP) of £348m (2020: £261m). This relates to 65,754 live plans (2020: 52,095 live plans). See note 2 for accounting policy for LCIP's.

The assured benefit between the Society and the customer is judged to represent an insurance contract and as such falls under the scope of IFRS 4 (Insurance Contracts). In-line with the requirements of IFRS 4 the Society accounts for the LCIPs in the same way as a normal funeral plan (see accounting policy above). These plans are assessed annually (gross of any reinsurance) using a liability adequacy test.

The Society holds investments on the balance sheet in respect of funeral plan policies which are invested in either individual whole-of-life policies, trusts or life assurance products. The investments are subject to an annual actuarial valuation. This gives an assessment as to the headroom of the funeral plan investments over an estimated present value (on a wholesale basis) of delivering the funeral. The most recent valuation was performed as at 30 September 2021 and the headroom achieved is shown in the table below.

Funeral Plan Investments actuarial valuation	**30 September 2021**	30 September 2020
	£m	£m
Total Assets	1,396	1,287
Liabilities:		
Present value (wholesale basis)	1,219	1,247
Total Liabilities	**1,219**	1,247
Headroom	**177**	40
Headroom as a % of liabilities	**15%**	3%

During the period plan sales significantly exceeded plan redemptions which, all other things being equal, would increase both total assets and liabilities. A reduction in wholesale cost per funeral has been offset by a higher inflation assumption and a lower expected investment return, given market expectations at 30 September 2021. However, it should be recognised that the Society continues to manage plans for the medium to long term given, in the normal course of business, this is when the majority of the liability will crystallise.

Key assumptions	**30 September 2021**	30 September 2020
	£	£
Average total wholesale costs per plan funeral	**2,652**	2,646

The actuarial report is a best estimate and is neither deliberately optimistic nor pessimistic. It is prepared by independent actuaries based on management assumptions such as future funeral and disbursement inflation. The headroom percentage is expressing the surplus as a percentage of total liabilities. A 0.1% increase in the inflation assumptions would reduce the surplus by approximately £23m (2020: £24m).

The "wholesale" actuarial valuation is based upon the Society's estimate of the direct cost for a third party funeral director to perform the promised services and the payment of associated disbursements (crematoria, clergy fees etc) as if the Society were not in a position to carry out these funerals. No incremental overheads are included because it's assumed that the provider could absorb these funerals into existing infrastructures. As the Society fully intends to perform these funerals and undertake the professional funeral services itself the actual cost would in reality be lower and subsequent marginal cost surplus would be higher than the wholesale cost surplus.

For considerations of the impact of IAS 37 Onerous contracts (amendments re cost of fulfilling contract), please see note 2.

Notes to the financial statements (continued)

16 Inventories

	As at 1 January 2022 £'000	As at 2 January 2021 £'000
Raw materials and consumables	215	220
Work in progress	127	175
Finished goods	3,390	4,226
At end of year	**3,732**	4,621

17 Contract assets

	As at 1 January 2022 £'000	As at 2 January 2021 £'000
Non-current	43,319	38,991
Current	4,396	3,777
At end of year	**47,715**	42,768

	As at 1 January 2022 £'000	As at 2 January 2021 £'000
Opening contract assets	42,768	37,334
Fulfilment costs - incurred on new funeral plan sales	10,212	8,627
Fulfilment costs - transferred to the income statement on funeral plan redemptions	(2,854)	(2,560)
Fulfilment costs - transferred to the income statement on funeral plan cancellations	(2,411)	(633)
Closing contract assets	**47,715**	42,768

No provision for expected credit losses has been recognised against contract assets in either the current or prior period.

A contract asset is recognised when our right to consideration is conditional on something other than the passage of time. For funeral plans then fulfilment costs (which are costs relating directly to the plan sale which otherwise wouldn't have been incurred) associated with delivering the funeral are deferred and shown in the balance sheet as a contract asset until the funeral is performed (at which point the costs are recognised in the income statement in line with when the revenue is recognised).

18 Trade and other receivables

	As at 1 January 2022 £'000	As at 2 January 2021 (restated*) £'000
Non-current assets:		
Trade receivables	196,021	151,380
	196,021	151,380
Expected obligations of funeral plan redemptions fall due as follows:		
Between two and five years inclusive	71,461	61,414
Over five years	124,560	89,966
	196,021	151,380
Current assets:		
Trade receivables	49,981	52,214
Amounts owed by group undertakings	198,337	207,143
Prepayments and accrued income	1,799	1,486
	250,118	260,843

Trade receivables are non-interest bearing and the Society's standard payment terms are 60 days.

The £214m (2020: £162m) of non-current debt relates to pre-paid funeral plan instalments where customers have been invoiced before the funeral has occurred. £43m (2020: £48m) of current debt also relates to pre-paid funeral plan instalments which are £257m (2020: £210m) in total.

* For more details on the restatement, refer to the accounting policies section on page 10.

Notes to the financial statements (continued)

18 Trade and other receivables (continued)

Trade receivables are stated at amortised cost which includes a credit risk impairment of £3.3m (2020: £4.7m). The Society has applied the expected losses model as defined under IFRS 9 (Financial Instruments) which focuses on the risk that a trade receivable will default rather than whether a loss has been incurred. The Society has applied a simplified approach as allowed under IFRS 9 to use a provision matrix for calculating expected losses for trade receivables as shown in the table below.

		Days past due date			
	Current	**<3 months**	**3 to 6 months**	**More than 6**	**Total**
Expected credit loss rate (%)	1.59%	2.80%	28.67%	96.65%	
Estimated gross total carrying amount (£k)	5,272	2,895	427	3,118	11,712
Expected credit loss (£k)	84	81	122	3,013	3,300

Unprovided debts in the over 3 months old and 12 months old categories are often being paid in regular instalments.

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

19 Trade and other payables

	As at 1 January 2022 £'000	As at 2 January 2021 £'000
Non-current liabilities:		
Accruals and deferred income	464	4,621
	464	4,621
Current liabilities:		
Trade payables	19,366	31,754
Other payables including taxation and social security	760	540
Corporation tax creditor / (debtor)	5,437	(5,162)
Accruals and deferred income	31,239	29,748
	56,802	56,880

20 Contract Liabilities

	As at 1 January 2022 £'000	As at 2 January 2021 (restated*) £'000
Non-current	1,573,435	1,490,214
Current	189,328	181,089
At end of year	**1,762,763**	1,671,303
Opening contract liabilities	1,671,303	1,616,139
New plan additions	97,907	88,288
Deferred income on funeral liabilities	56,697	50,402
Plans cancelled or redeemed outside of the Society	(35,325)	(31,388)
Recognised as revenue in the period	(27,819)	(52,138)
Closing contract liabilities	**1,762,763**	1,671,303

Included in the balances above are Low Cost Instalment Funeral Plans (LCIP) of £348m (2020: £261m). This relates to 65,754 live plans (2020: 52,095 live plans). See note 2 for accounting policy for LCIP's.

* For more details on the restatement, refer to the accounting policies section on page 10.

Notes to the financial statements (continued)

21 Provisions

	As at 1 January 2022 Property Provisions Total £'000
At beginning of the period	3,014
Additional provisions made in the period	1,337
Amounts used during the period	(3,111)
Payments	(366)
At end of the period	**874**
Non-current	**-**
Current	**874**
	874

Property provisions are held for running costs, excluding rental costs, of leasehold properties that are vacant or not planned to be used for ongoing operations. Property provisions are expected to be utilised over the remaining periods of the leases which range from 1 to 25 years.

22 Deferred taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a blended effective tax rate of 19% (2020: 19%).

	As at 1 January 2022 £'000	As at 2 January 2021 £'000
Deferred tax asset brought forward	**(9,269)**	5,761
Adjustment to Opening Balance	**-**	(871)
Restated Balance Brought Forward	**(9,269)**	4,890
Income statement charge in the period	**(412)**	(14,159)
Deferred tax liability closing balance	**(9,681)**	(9,269)
Comprising:		
Other temporary differences	**-**	(666)
Capital allowances on fixed assets	**7,237**	4,297
Capital allowances on intangible assets	**(1,156)**	-
Provisions	**425**	-
Unrealised gains on investment properties, rolled-over gains and historic business combinations	**(17,578)**	(14,023)
IFRS16 leases	**1,391**	1,123
Deferred tax liability	**(9,681)**	(9,269)

Following the Budget on the 3 March 2021, the Chancellor announced that the main rate of Corporation Tax will increase from 19% to 25%, with effect from the 1 April 2023.

Under IFRS (IAS 12) it is the rate enacted at the balance sheet date that determines the amount of deferred tax to be recognised. As the 25% rate has been enacted at the balance sheet date, to the extent the deferred tax assets and liabilities are expected to crystalise after 1 April 2023, they should be valued using 25% instead of the current corporation tax rate of 19%. While a minority of assets and liabilities are forecast to unwind between the balance sheet date and 1 April 2023, it is expected that this is immaterial to the overall deferred tax balance and therefore a flat rate of 25% has been applied.

The impact of recognising the net deferred tax liabilities at 25% is an increase in the liabilities of £2,324k.

23 Called up share capital

	As at 1 January 2022 £	As at 2 January 2021 £
Allotted, called up and fully paid		
Ordinary shares of £1 each	**3**	3

There is a single class of share capital.

24 Commitments

Capital expenditure committed by the Society at period end was £4,785k (2020: £724k)

The Society is commited to a purchase of land at Walkford Lane, New Milton for £650k, conditional on the approval of planning permission being obtained by the Society for the land. If this is granted, the Society is then committed to sell this land to Natural Burial Ground Limited for a price of £1,200k.

The Society participates in the Group's cash pool arrangement and as such provides a guarantee for all members in relation to the Group's cash pool liability. At 1 January 2022, the guaranteed balance was £37.7m. No material losses are likely to arise from this guarantee.

Notes to the financial statements (continued)

25 Contingencies

On 30 September 2019, the Co-operative Group Limited ('the Group') along with six original guarantors entered into a £400m facilities agreement with a syndicate of banks. Co-operative Foodstores Limited entered into the facilities agreement as an original guarantor. The £400m RCF facility now matures in September 2024, following the exercise of the Group's second (final) extension option. The RCF has been agreed on a sustainable basis with rates of interest linked to the Group's CO_2 emission targets (such that if the agreed CO_2 emission targets are not met then a sustainability fee is calculated at the rate of 0.025% per annum of the borrowing outstanding during that financial year).

26 Ultimate parent undertaking

The Society is immediately owned and a wholly owned subsidiary of Co-operative Group Holdings (2011) Limited, a Registered Society registered in England and Wales.

The Society's ultimate parent undertaking and controlling party is Co-operative Group Limited, a Registered Society registered in England and Wales. This is the smallest and largest group of which the Society is a member and for which consolidated accounts are prepared. A copy of the Group accounts can be obtained from the Secretary, Co-operative Group Limited, 1 Angel Square, Manchester, M60 0AG.

27 Related parties

Identity of related parties

The Society has a related party relationship with its Directors.

The Directors' emoluments are disclosed in Note 5.

Transactions with other Trading Group subsidiaries

The Society is involved in a Group set-off scheme whereby the bank accounts within the Trading Group are netted off against each other and any interest payable or receivable is settled or received by the ultimate parent Society, Co-operative Group Limited.

28 Post balance sheet events

The Society continues to monitor the ongoing tragic conflict in Ukraine and resulting international relationships, to understand how we can respond and potential effects upon the Society. Our immediate direct financial exposure to the fallout from the conflict is limited and we do not expect there to be a material impact on the valuation of the Society's assets or liabilities going forward.

In advance of regulation of the funeral plan industry on the 29th July 2022, Co-operative Funeral Plans Limited began trading on the 1st May 2022. Co-operative Funeral Plans Limited is the company that applied to the Financial Conduct Authority for regulatory approval for all of the Co-operative Group's funeral plan contracts. On the 1st May 2022, a partial transfer of engagements from Funeral Services Limited to Co-operative Funeral Plans Limited was registered transferring all charges in relation to funeral plan contracts from Funeral Services Limited to Co-operative Funeral Plans Limited.

Name	**Company/Society**	**Position**
Samantha Jane Tyrer	Co-op Funeral Plans Limited	Director
Gillian Louise Stewart	Funeral Services (Ireland) Limited	Director
Helen Louise Smith	Funeral Services (Ireland) Limited	Director